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SUBJECT: Medvedev's Four "I"s: - The Keys to His Economic Program

¶1. (U) Summary. In a speech at an economic forum in Krasnoyarsk, Siberia February 15, Deputy Prime Minister and presidential hopeful Dmitry Medvedev identified four economic priorities for Russia: infrastructure, innovation, investment, institutions. He called for a smaller state role in the economy, including a diminished role for government officials on the boards of state-owned enterprises. He also said that if he were elected, he would seek to turn Russia into "one of the biggest financial centers in the world" with a stable currency, strong banking sector and reformed tax system. Medvedev identified combating corruption as one of most serious challenges before Russia, and called for a stronger and more independent judiciary and mass media as means to reducing corruption. He emphasized freedom - personal and economic, as well as freedom of expression. End Summary

Economic platform

¶2. (U) In his speech, Medvedev outlined several key tasks: lowering administrative barriers, reducing the VAT, turning the ruble into one of the world's resource currencies, modernizing transportation and energy infrastructure, creating an innovation society and implementing a social development program for the country.

Modernization and the State

¶3. (U) Medvedev criticized the insufficient investment levels in oil and gas production over the past decades, and called for a series of measures that would increase production, create state-of the art generating plants - nuclear, coal, electricity and gas-driven - and define the regulatory framework for investment. He stated that the government had a role to play in co-financing major projects. The state also should assume significant responsibility for improving

the state of the roads, and for ensuring that everyone has access to modern, uninterrupted telecommunication and internet services.

¶4. (U) Medvedev, however, cautioned about the state having too large a role in the economy. He called for a greater transfer of assets to the private sector and urged that government officials not hold the majority of seats on the boards of state-owned companies. He also subtly encouraged the SOEs to become more flexible.

Russia - A financial center

¶5. (U) The ruble should be seen as a world currency and used in reserves, according to Medvedev. He called for measures to support Russian exports and investment abroad. Russian raw materials should

be priced in rubles, which would help turn the ruble into a world currency reserve. Russia should become one of the world's largest banking sectors, with a stable currency and reformed tax system. Regarding the latter, he suggested that value-added tax rates should be lowered as well as taxes imposed on the sale of stocks on the Russian market. He supported the creation of tax incentives for companies in the extractive industries to increase production and adopt modern technologies.

¶6. (U) Medvedev said the government would be ready to assist the banking sector, should global economic conditions start to take their toll, and would use the newly created Welfare Fund if necessary to provide the financial support.

Closing the Gap

¶7. (U) Recognizing that not everyone has benefited from Russia's recent economic growth, Medvedev called for pension reform. He also advocated a lowering of taxes on private expenditures on education and health-care related services and pensions. He pointed out the need to increase the affordability of housing, observed that only 20 percent of the population can afford housing, and said the GOR's goal is not less than 35 percent by 2012.

Combating Corruption, Increasing Freedom

¶8. (U) Medvedev harshly criticized the level of corruption that permeates all aspects of life in Russia. He urged for a comprehensive anti-corruption campaign, and pointed to an independent judicial system, free access to information and media as critical elements. He also called for the strengthening of measures to protect private property. Expounding on the need for judicial reform, he expressed support for the development of pre-trial and non-court conflict resolution mechanisms, the introduction of a compensation fund for losses from unlawful court decisions, and a 'humanization' of the judicial system. The grounding principle should be freedom, in all its aspects - personal freedom, economic freedom, and freedom of expression. The grounding value should be the rule of law, he argued.

Comment

¶9. (SBU) Medvedev seems to be increasingly intent on demonstrating his liberal economic tendencies. His goals are both technical in nature but significant in scope, and are designed to increase Russia's global competitiveness and to ensure that the benefits of economic growth trickle down. End Comment.